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SUBJECT: WEST BANK BUSINESSES CAPITALIZING ON IMPROVED
CONDITIONS

¶1. (SBU) Summary: West Bank businesses are expanding, based on improved security conditions, greater internal freedom of movement, and an uptick in consumer spending. Business owners claim continued growth is dependent on easier movement of goods and people within the West Bank, as well as between the West Bank and Israel and Jerusalem. Some of the largest West Bank businesses, such as National Beverage Company, NAPCO, and Wataniya, continue to suffer from Israeli-imposed constraints that restrict employment and growth. End summary.

Improved Conditions Bring Growth,
With Ramallah as Retail Flagship

¶2. (SBU) In conversations throughout October 2009, a number of West Bank business owners expressed increasing confidence in the local economy. EconOfs met separately with representatives from more than a dozen enterprises from Jenin at the northern end of the West Bank to Hebron in the south, almost all of whom are expanding business or investing in new sectors. New investments are most noticeable in Ramallah: a longtime marble and ceramic importer recently opened a high-end men's suit shop; an established electronics retailer opened a pilot "big box" store; and a family that made money in cosmetics invested USD 4 million in a boutique hotel, conference center, and spa facility. The owners of Ramallah's newest and trendiest coffee shop noted that while it is easy to vent about the political situation, the reality is "it's now safe to invest here."

Consumer Confidence and Spending Drive Profits

¶3. (SBU) Nidal Juneidi, general manager of the West Bank's largest dairy, located in Hebron, said demand for his products has increased this year. West Bank economic conditions he said are "more stable than any time since the signing of the Oslo Accords." While battling a range of Israeli restrictions, including the prohibition of dairy exports from the West Bank to East Jerusalem and Gaza and a ban on hydrogen peroxide required for sterilization purposes, Juneidi's profits are increasing.

¶4. (SBU) Juneidi attributes the gains to improved access and movement, better security, and a society that has more money to spend. "West Bank Palestinians feel secure, so they're buying things," he said. Juneidi has recently invested USD 2.5 million in Ultra-High Temperature technology that generates longer shelf-life in order to extend the range of his goods. Similar good news stories include West Bank importer Unipal's sales of consumer products, which have increased 14 percent over the last year, despite the loss of

the Gaza market; and electronic goods distributor Safad, which reported growth as a result of increased consumer spending.

15. (SBU) These same business owners were quick to note that continued movement and access restrictions -- in particular, difficulty exporting goods to or through Israel -- limit their growth. Retailers in Ramallah noted that continued restrictions on movement to and from Ramallah limit their consumer base to relatively small geographic areas.

Checkpoint Removal Brings More Tourists to Jericho

16. (SBU) Kamel Sinokrot, owner of the Jericho "Mount of Temptation" cable car, said that the removal of Jericho's main checkpoint resulted in an increase in visitors to the city and more tourist-related business. As a result, he has resumed construction halted since the Second Intifada, of a hotel. Sinokrot and his brothers also are expanding their family-owned packing plant to increase the variety and amount of produce for export from the Jordan Valley.

17. (SBU) The owner of the West Bank's largest tourist center (located in Jericho) said he has begun construction on "one of the largest tourist sites in the West Bank." The site will be called "Ancient Jericho," and will include several structures replicating ancient homes and craftsmanship, as well as a self-guided tour depicting Jericho's history. (Palestinian tour operators and hotel owners have organized a visit by more than 80 Israeli tour guides to Jericho during the week of November 2 in order to encourage them to add

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Jericho sites to established tours that, until recently, have driven past the city on the way to Masada or Jordan.)

Better Security, Rule of Law Affecting Business

18. (SBU) Palestinian businessmen also report that improvements in law and order are positively impacting the business climate. Officials from a large steel company in Jenin credited improved security and a court system that "goes after those who bounce checks." They said the PA now penalizes perpetrators bouncing checks "on a daily basis," and a stronger legal system increases the confidence of companies to make large transactions. Ramallah-based distributor Ibrahim Barham said that the private sector was beginning to benefit from improvements in the rule of law. "The court system is starting to work," he said.

19. (SBU) A Hebron rice trader, who plans to invest in the West Bank's soybean oil trade, told Econoffs that the PA's crackdown on traders and retail outfits operating without licenses was a key cause of lower rice sales this year. Despite the setback to his sales, he admitted that such oversight will create a more stable investment climate in the long run.

But Some of the Largest Enterprises Still Suffering

10. (SBU) Despite general improvements, manufacturers continue to experience Israeli rejection of their requests to import inputs essential to their production lines. The National Beverage Company (NBC), one of the leading U.S. investments in the West Bank and bottler for Coca Cola, has closed down its TetraPak production line due to lack of hydrogen peroxide for machine sterilization. NAPCO, the West Bank's only aluminum producer with annual sales of USD 10 million, has been unable to import sulfuric acid, essential to its anodizing production line. Although NAPCO's sales are up, it is barely breaking even as a result of the heavy debt it is carrying from its unused line. Though Wataniya has

launched its mobile telephone operation, the lack of certainty regarding its frequency allocation has hindered its marketing campaign and significantly delayed its roll-out.

¶11. (U) Business owners also complain about an overly cautious banking sector that provides loans only against sufficient collateral and does not take risks to support entrepreneurs or innovation. In each of the cases of expansion above, the capital for new investments came from established, family businesses. One entrepreneur (who used family connections and property to secure the loan for his first, successful store) noted wryly, "now that I don't need them," banks have become eager to support his expansion plans.
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